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Backgrounder

November 29, 2001

Who Gets CIDA Grants?
Recipient Corruption and the Effectiveness of Development Aid

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Development aid is ineffective in reducing poverty in poorly governed, highly corrupt countries. Yet Canada, whose aid allocations are based on historical precedent, rather than aid effectiveness criteria, appears to give more bilateral development aid to highly corrupt countries than to less corrupt ones. While it may be intended to reduce poverty, aid to poorly governed, corrupt countries may be ineffective or even counterproductive if it fails to recognize the reality of corruption. The Canadian International Development Agency should reassess who gets aid and for what, based on governance and corruption criteria, and aid should be focused on the poorest, least corrupt countries.

Nearly half of Canadians surveyed in a 2000 Earnscliffe poll commissioned by the Canadian International Development Agency (CIDA) perceived that Canada's foreign aid programs contained "a lot of waste." Focus groups added that government should not spend more on foreign aid because it is ineffective. These concerns about aid effectiveness assume even greater importance as the federal government contemplates new foreign aid spending.

There is evidence to support skepticism about aid effectiveness: 10 of Canada's top 25 aid recipients from 1994 to 1999 (more than 130 countries receive Canadian aid) had negative annual per capita growth rates over that period (see Table 1). But the positive growth rates of other aid recipients suggest this is not the end of the story. World Bank (1998) research shows that aid is effective in raising per capita incomes and reducing infant mortality only in countries where recipient governments are effective, accountable, and have low levels of corruption. Corruption — defined by the World Bank and the

The author would like to thank Richard Bird, Wendy Dobson, Jonathan Fried, Clifford Goldfarb, John Lobsinger, Jonathan Maack, Jack Mintz, Finn Poschmann, John Richards, and Bill Robson for their helpful comments, as well as staff of the Canadian International Development agency who provided useful documents and clarifications.

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International Monetary Fund as the abuse of public funds for private gain — includes the embezzlement of public funds by high-level officials, nepotism, fraud, illegal levies, money laundering, and bribery of public officials by private parties. Corruption diverts resources from development, deters investment, and impedes economic growth. Accordingly, this *Backgrounder* explores the relationship between Canada's aid spending and corruption in recipient countries, and finds that Canada gives more of its bilateral development aid to countries perceived to be highly corrupt than to those that are less corrupt. (See Table 2 for a listing of top aid recipients and their corruption rankings.)

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CIDA has promised to announce, in early 2002, a "firm plan for a more effective Canadian aid program."[1] Since there is evidence that aid is ineffective in reducing poverty in poorly governed, highly corrupt countries, CIDA's announcement would be a welcome one. An effective plan should use governance and corruption criteria to reassess who gets aid and how it is spent, with a view to concentrating on the poorest, least corrupt countries.

Canada's Aid Allocation

Canada gave $2.7 billion in official development assistance (ODA) in fiscal year 1999/2000.[2] This represents about 3 percent of total ODA from members of the Organisation for Economic Co-operation and Development (OECD), and 0.3 percent of Canada's gross national product. Of this amount, CIDA manages about 80 percent; the rest is managed by the Department of Finance, which is responsible for contributions to the World Bank and the International Monetary Fund, and by the Department of Foreign Affairs and International Trade (DFAIT). CIDA exercises a fair degree of autonomy over program implementation, working in close association with DFAIT (Morrison 1998). Aid priorities are considered "in the context of Canada's broader foreign policy objectives" (CIDA 2000).

The purpose of aid, according to the Canadian government, is to "support sustainable development activities in order to reduce poverty and to contribute to a more secure, equitable and prosperous world" (Canada 1995). About 40 percent of aid goes toward basic human needs, including primary health care, basic education, family planning, nutrition, water and sanitation, and shelter. The rest is dispersed among a diverse and highly inclusive set of program priorities: women in development; infrastructure services; human rights, democracy and good governance; private sector development; and the environment. CIDA provides aid in cash, in kind, and through technical assistance. Since 1986, all aid has been granted rather than loaned.

Aid goes from the Canadian government directly to recipient governments or through "partnership" channels, such as nongovernmental organizations (NGOs), the Industrial Cooperation Program (which facilitates joint ventures between the Canadian

1 Electronic communication from Maria Minna, Minister of International Cooperation, to participants in September 2001 "Strengthening Aid Effectiveness" consultation, October 17, 2001.

2 The Development Assistance Committee of the Organisation for Economic Co-operation and Development defines ODA as flows by official agencies that have as their main objective the promotion of economic development and welfare and that are concessional — that is, they are loaned on "soft" terms — and have a grant of at least 25 percent. ODA excludes military aid, as well as export credits extended to developing countries at market interest rates.

Table 1: ***Top 25 Recipients of Canadian Bilateral Aid, 1994–99***

	Cumulative Bilateral Official Development Assistance[a]	Average Annual Change in Gross National Income per Capita[b]
	($ millions)	*(%)*
Egypt	440	0.09
China	379	0.11
Bangladesh	376	0.03
Haiti	220	0.11
Indonesia	181	–0.10
Former Yugoslavia	168	n.a.
Ghana	163	0.02
India	163	0.04
Philippines	139	0.01
Cameroon	135	–0.02
Senegal	129	–0.02
Peru	128	0.01
Mali	126	–0.01
Rwanda	120	0.06
Tanzania	113	0.13
Mozambique	109	0.12
Ethiopia	95	–0.02
Vietnam	92	0.12
South Africa	87	–0.04
Pakistan	82	–0.01
Zimbabwe	78	–0.04
Malawi	72	0.06
Burkina Faso	70	0.02
Zambia	70	–0.02
Thailand	70	–0.07

n.a. = data not available.

[a] Unlike other references in the text to bilateral ODA, this amount includes international humanitarian assistance.

[b] This is the arithmetic mean of annual gross national income per capita converted to current US dollars using the World Bank Atlas method, which attempts to smooth fluctuations in prices and exchange rates by averaging the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation between the country and the Group-of-Five countries (France, Germany, Japan, the United Kingdom, and the United States), divided by the mid-year population.

Sources: CIDA, *Statistical Report on Official Development Assistance*, fiscal years 1994/95–1999/2000; World Bank 2001.

private sector and developing countries), and the International Development Research Centre, a public corporation that funds social, economic, and environmental developing country research.

Two-thirds of aid is bilateral, in that Canada has control over its allocation; CIDA is responsible for this aid. The rest is multilateral, meaning that resources are pooled and disbursed by international organizations such as the World Bank. Ninety percent of Canada's ODA is aimed at long-term development purposes; the remaining 10 percent is humanitarian, aimed at short-term crisis relief.[3]

CIDA does not use an explicit, transparent set of criteria to determine aid allocations; rather, allocations are largely rooted in historical precedent. Shares for multilateral, bilateral, and "partnership" programs remain essentially the same from year to year, as they did even when budgets were being cut during the 1990s. Country and regional shares have also remained fairly consistent over time. These shares largely reflect historical decisions, such as a desire to balance aid to Commonwealth and francophone countries in Africa and Asia with broader Western Hemispheric responsibilities (Morrison 1998).

This geographic dispersion of Canadian aid is unusual among bilateral aid agencies from countries of similar economic size. Other donors generally have a regional focus; for example, Australia concentrates its ODA in the Far East and Papua-New Guinea, while many European Union countries focus their ODA in central and eastern Europe (OECD 2000, statistical annex). In Canada's case, Africa (including the Middle East) and Asia each account for roughly 40 percent of CIDA's bilateral aid programs, while the Americas receive the rest. In 1995, CIDA began giving aid to central and eastern European countries and to countries of the former Soviet Union.[4]

In recent years, CIDA has placed greater emphasis on "governance" programming. A recent

3 In order to focus on the effectiveness of aid on longer-term development and on decisions within Canada's control, aid figures in this *Backgrounder* are for bilateral development aid and do not include humanitarian aid unless otherwise noted.

4 The OECD's Development Assistance Committee considers aid to the more developed of the countries in this group to be "official aid" rather than ODA. This amount is in addition to total ODA, and represents about 5 percent of total aid. Aid to countries of the former Yugoslavia is considered ODA.

Table 2: *Income and Corruption among the Top 25 Recipients of Canadian Bilateral Aid, fiscal year 1999/2000*

	Bilateral Official Development Assistance[a] ($ millions)	Corruption Perception[b] (10 = highly corrupt, 0 = highly clean)	Corruption Perception by Rank (1 = least corrupt, 91 = most corrupt)	Classification by Income[c]
Bangladesh	56	9.6	91	least developed[d]
China	46	6.5	57	other low income
Indonesia	39	8.1	88	other low income
Haiti	38	n.a.	n.a.	least developed
Former Yugoslavia	33	n.a.	n.a.	low-middle income
Ghana	29	6.6	59	other low income
Vietnam	27	7.4	75	other low income
Mali	24	n.a.	n.a.	least developed
Senegal	22	7.1	65	other low income
Pakistan	22	7.7	79	other low income
Philippines	21	7.1	65	low-middle income
South Africa	21	5.2	38	upper-middle income
Tanzania	20	7.8	82	least developed
India	19	7.3	71	other low income
Egypt	18	6.4	54	low-middle income
Mozambique	16	n.a.	n.a.	least developed
Kenya	15	8.0	84	other low income
Peru	15	5.9	44	low-middle income
Ethiopia	14	n.a.	n.a.	least developed
Bolivia	14	8.0	84	low-middle income
Burkina Faso	13	n.a.	n.a.	least developed
Honduras	12	7.3	71	low-middle income
Zambia	11	7.4	75	least developed
Zimbabwe	11	7.1	65	other low income
Guatemala	10	7.1	65	low-middle income

n.a = data not available.

[a] Excluding international humanitarian assistance.

[b] Rescaled from Transparency International for ease of interpretation.

[c] The least developed countries are classified as those with GDP per capita of less than US$765, weak human resources, low levels of economic diversification, and a population of less than 75 million (United Nations classification). The next four categories, in order from least developed to most, are: other low-income countries, low-middle-income countries, upper-middle-income countries, and high-income countries (World Bank classification). High-income countries are not among CIDA's top aid recipients. The classification used is for 2000 to correspond to the year of the aid budget.

[d] Although Bangladesh has a population of more than 75 million, CIDA's classification of it as a least developed country is used here for consistency.

Sources: CIDA, *Statistical Report on Official Development Assistance*, fiscal year 1999/2000; Transparency International 2001; World Bank 2001.

CIDA paper, *Strengthening Aid Effectiveness*, explicitly refers to the "profound effect" of good governance on "development success and the effectiveness of aid investments" (CIDA 2001, 12). The concept of good governance is admittedly imprecise, though the World Bank recognizes control of corruption as a critical element. Other elements include: voice and accountability to citizens, political stability and lack of violence, government effectiveness, an efficient regulatory framework, and the rule of law (Kaufman, Kraay, and Zoido-Lobaton 2000). CIDA defines good governance as

"the exercise of power by various levels of government that is effective, honest, equitable, transparent and accountable" (Canada 1996, 21) without explicitly mentioning corruption. Indeed, the issue of recipient country corruption is largely absent from CIDA aid policy documents. *Strengthening Aid Effectiveness* mentions corruption only twice, both times in passing. Neither bilateral nor multilateral programs are required to assess corruption as part of programming, and there are no references to corruption in CIDA's development policy framework.[5]

What Makes Aid Effective?

In 1996, aid donors from OECD countries agreed to aim to halve the proportion of people living in extreme poverty by 2015 (OECD 1996), a goal that was also adopted as part of the United Nations' Millennium Declaration. For its part, CIDA emphasizes that "poverty reduction should lie at the heart of development efforts" (CIDA 2001, 8), and its mandate also reinforces the centrality of poverty reduction. Though a focus on poverty does not capture all elements of the development process, it is clear that the international community recognizes that aid's central purpose should be to reduce poverty. It therefore seems reasonable to evaluate the impact of aid based on its effectiveness in reducing poverty.

Aid has a significant positive effect on growth and other social indicators only in countries with effective public management and strong institutions, including low levels of corruption.

Here, I use per capita income growth as a proxy for poverty reduction,[6] along with some evidence on change in infant mortality. Has Canada's bilateral development aid helped to raise per capita incomes in recipient countries? As Table 1 shows, despite large amounts of aid from Canada and other donors, 10 of the top 25 aid recipients during the 1994–99 period had negative rates of per capita income growth. Why the mixed performance?

Studies (summarized in World Bank 1998) find that, all things being equal,[7] aid has a significant positive effect on growth and other social indicators only in countries with effective public management and strong institutions.[8] Effective management and institutions include competent macroeconomic management, strong property rights, effective legal institutions, and an efficient and accountable public sector, with low levels of corruption — broadly speaking, good governance. In two separate studies,

5 CIDA has, however, developed an anti-corruption primer for its staff. In addition, the federal government has promoted anti-corruption efforts through channels other than aid, such as the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which came into force into 1999.

6 Per capita income growth serves as a proxy summary indicator but does not capture all elements of poverty or development. Social indicators, such as infant mortality rates or the prevalence of child malnutrition, can be used to evaluate other dimensions.

7 The studies hold constant factors such as initial gross domestic product per capita. They also take into account the fact that poor growth may cause donors to give more aid by using the method of "instrumental variables," so that only permanent flows are included in the regressions. The studies find that, although aid flows alone cannot explain growth or falling infant mortality rates, a variable constructed by interacting aid flows with effective management proxies has significant explanatory power.

8 Hansen and Tarp (2000) challenge these findings on the basis that they do not hold up well to changes in samples. Collier and Dehn (2001) find that, when negative shocks are included, the World Bank result that aid is more effective in "better policy" environments is robust to the changes in samples proposed by Hansen and Tarp.

Burnside and Dollar find that, in well-managed countries, an increase in aid equal to 1 percent of the recipient country's gross domestic product (GDP) led to an increase of 0.5 percent in per capita GDP growth (2000) and to a reduction of 0.9 percent in infant mortality (1998). The magnitude of these changes is significant. In contrast, in countries lacking strong institutions and effective public management, increased aid had no impact on per capita incomes or infant mortality.

How much of the impact of aid on growth is due to good public sector management and the absence of corruption rather than to other policy variables? Collier and Dollar (1998), controlling for policy variables other than public sector management — such as macroeconomic management, structural policies, and pro-poor targeting — find that aid has a statistically significant impact on per capita incomes only when public sectors have effective budget and public investment processes and when public services are accountable and have low levels of corruption. Collier and Dollar's results show that, taken on its own, public service accountability — including the absence of corruption — is a statistically significant determinant of the effectiveness of aid in raising per capita incomes.

Assuming these findings stand up to further scrutiny, it is clear that aid is ineffective in poorly governed countries with systemic corruption. It is also easy to see why corruption impedes the effectiveness of aid in reducing poverty. In countries that are highly corrupt, officials are more likely to divert aid to their private use and away from, say, improving education or health services for the poor.[9]

Corruption slows economic growth by reducing foreign and domestic investments, limiting competition, and misallocating public expenditures.

A more indirect and possibly more significant way in which corruption reduces the effectiveness of aid is by slowing economic growth. Corruption slows economic growth by reducing foreign and domestic investments, limiting competition, and misallocating public expenditures away from health and education and toward less efficient but more easily manipulated public projects (see Wei 1999; Gray and Kaufman 1998; Gupta, Davoodi, and Alonso-Terme 1998; and Mauro 1995). When officials are corrupt, it becomes more expensive for individuals — especially the poorest — to obtain business licenses or property titles.[10] Corruption also undermines social capital, or trust networks, and both worsens poverty and increases inequality. Kaufman, Kraay, and Zoido-Lobaton (2000) estimate that reducing corruption from the very high level prevalent in, say, Indonesia to the low level that exists in, say, South Korea would lead to a two- to fourfold increase in per capita incomes, a decline in infant mortality of similar magnitude, and an improvement of 15 to 25 percentage points in literacy levels.

In corrupt countries, moreover, aid is not only ineffective in reducing poverty; it may actually erode the quality of governance and fuel corruption, partly because aid increases the amount of resources over which interest groups and factions fight (Svensson 2000). One empirical study (Knack 2000) shows that increased aid reduces the quality of governance as measured by indexes of bureaucratic quality, the rule of law, and corruption.

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9 World Bank research (1998) shows that aid is fungible; this means that aid is diverted from its donor's intended purpose even when local officials are not corrupt. Governments use all resources, including aid money, as they choose — to increase spending, reduce taxes, or reduce their fiscal deficit. When aid represents a large portion of government revenue, donors and NGOs tend to fund core services such as education and health, freeing funds for nonessential services.

10 On the other hand, some argue that corruption can have a positive impact on development by speeding up commercial transactions, thus increasing economic growth. The empirical evidence does not support this. See Wei (1999).

Corruption and Canada's Aid Spending

Given the negative impact of corruption on development and aid effectiveness, how does Canada's aid spending correlate with corruption in countries that receive it? Do highly corrupt countries receive more or less Canadian aid than countries that are less corrupt?

A Corruption Perceptions Index compiled by Transparency International (TI) provides a proxy for the extent of country corruption (Transparency International 2000). This widely used composite index combines 14 surveys published between 1999 and 2001, and ranks 91 countries in terms of the degree to which corruption is perceived — by residents and nonresidents — to exist among public officials and politicians.[11]

To highlight the relationship between aid spending and corruption, I use three aid measures. One, which treats each aid recipient as a single entity, looks at total dollar amounts. The other two attempt to capture Canadian aid relative to resources in the recipient country. Aid scaled to income per capita in the recipient controls for the depth of poverty, while aid as a share of government spending in the recipient country shows the proportion of public resources that is received from CIDA, rather than raised domestically or through international commercial loans or other donors.

The top recipients of Canadian aid rank high on the corruption scale.

As Table 2 shows, the top recipients of Canadian aid rank high on the corruption scale. Bangladesh, Canada's top recipient of bilateral development aid in fiscal years 1998/99 and 1999/2000, received the highest corruption ranking of all 91 countries on the TI index (TI notes, however, that Bangladesh's score should be treated with caution because of the wide range of survey results). For countries that received more than $15 million in total aid — consuming the bulk of CIDA's aid resources — there is a positive correlation of 0.5 between aid and corruption (see Figure 1). In other words, higher total aid levels are associated with higher levels of corruption. There is also a positive correlation between aid and corruption for aid scaled to per capita GDP: as aid levels increase relative to average income, the level of recipient country corruption increases (see Figure 2). Finally, the correlation between aid as a share of government spending and corruption is also positive (see Figure 3),[12] meaning that the more important is Canadian aid in terms of total government spending, the higher is the level of corruption in the recipient country.

On three different aid measures, then, Canada's aid spending is positively correlated with corruption levels in recipient countries. And Canada is not alone. According to a recent empirical study of both bilateral and multilateral donors (Alesina and Weder 2000), after accounting for other determinants of aid flows, it is the more corrupt governments that receive the most development aid. This does not, however, hold true for individual donors. For example, the United States gives more aid to highly corrupt countries than to less corrupt ones, while Scandinavian countries give more aid to less corrupt countries than to highly corrupt ones.

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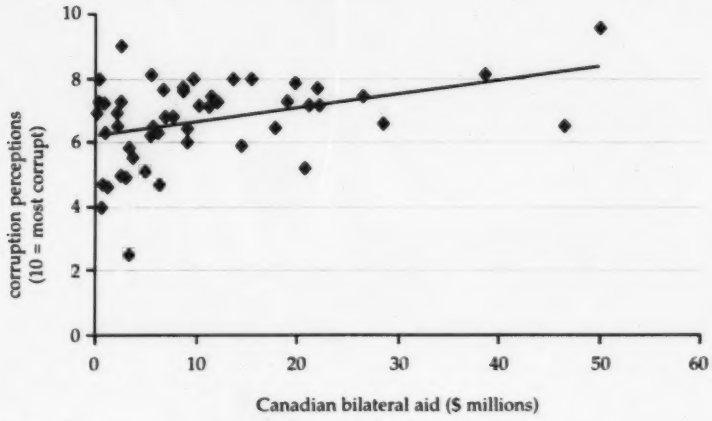
11 The index includes only countries for which at least three surveys are available, so the data are limited to 49 of Canada's bilateral aid recipients; however, these tend to be the larger recipients. Note that the index does not attempt to capture the nature of corruption that exists in any particular recipient country. Note also that indices of perceived corruption are highly correlated with each other, so the results do not appear to be sensitive to the choice of index (Alesina and Weder 2000).

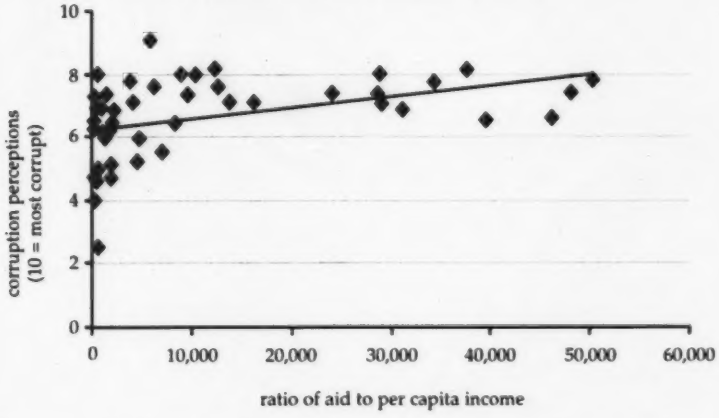
12 Government expenditure data were unavailable for a few of the poorer countries, reducing the sample size for this measure.

Figure 1: ***Perceptions of Corruption and Canadian Bilateral Aid***



Sources: World Bank 2000; CIDA, *Statistical Report on Official Development Assistance*, fiscal year 1999/2000; Transparency International 2001.

Figure 2: ***Perceptions of Corruption and Ratio of Canadian Bilateral Aid to Recipient Income***



Sources: World Bank 2000; CIDA, *Statistical Report on Official Development Assistance*, fiscal year 1999/2000; Transparency International 2001.

Corruption and Poverty

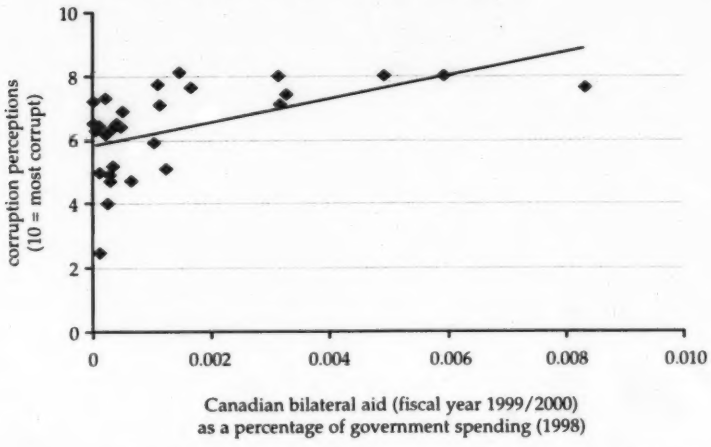
A high correlation between aid spending and recipient corruption levels does not mean, of course, that CIDA (or the United States, for that matter) intentionally gives more money to more corrupt countries but, rather, that aid is given on the basis of other priorities. Donors allocate aid between countries based on a variety of factors, including poverty levels in the recipient, commercial and strategic interests, and the level of recipient country democracy (Alesina and Dollar 2000). There is, for example, a strong negative correlation (0.7) between corruption perception and income per capita in Canada's aid recipients — that is, the more corrupt countries tend also to be the poorest. That Canadian aid goes disproportionately to more corrupt countries may simply reflect the fact that more aid goes to poorer countries. This is, however, a "Catch-22" situation for those who are responsible for making aid allocation decisions: the poorest countries tend to be those least able to use aid dollars productively. But the relationship between corruption and poverty is imperfect. For example, Botswana, a relatively poor country, is less corrupt, according to the TI index, than many high-income countries.

When countries are equally poor, does Canada give more aid to the more corrupt than to the less corrupt? To determine the relationship between aid and corruption, controlling for the level of development, I use World Bank and United Nations classifications to group aid recipients into categories based on their level of development. The results (see Table 3)[13] suggest that the answer may be yes: among the least developed countries, more Canadian aid goes to the more corrupt.[14] For recipient countries at the next level of development, there is no significant correlation between aid spending and corruption, as all countries in this group are similarly corrupt. For lower-middle-income countries, there is a consistently positive correlation, meaning

13 Grouping countries by income categories reduces sample sizes and therefore limits the ability to draw firm conclusions.

14 Removing Bangladesh, which is both highly corrupt and the top Canadian aid recipient, from the sample reduces the correlation but it is still positive.

Figure 3: ***Perceptions of Corruption and Canadian Bilateral Aid as a Share of Government Spending***



Sources: World Bank 2000; CIDA, *Statistical Report on Official Development Assistance*, fiscal year 1999/2000; Transparency International 2001.

Table 3: ***Correlations between Canadian Bilateral Aid and Perceptions of Corruption***

Development Classification[a]	Aid	Aid as a Share of Recipient GDP per Capita	Aid as a Share of Recipient Government Spending
Least developed	0.81	0.80	n.a.
Other low income	–0.20	–0.20	0.33
Lower-middle income	0.26	0.40	0.60
Upper-middle income	0.07	0.07	–0.41

Note: Numbers represent correlation coefficients between each aid measure and corruption perceptions. A positive value means that aid tends to rise with corruption levels. A value of 1 indicates a perfect positive correlation; a value of –1 indicates a perfect negative correlation.

[a] Development classifications are as defined by the World Bank and the United Nations.

that, as with the least developed recipients, more aid goes to the more corrupt. Interestingly, within upper-middle-income countries — the most developed recipients — there is a negative relationship between corruption and aid as a share of government spending, suggesting that more aid goes to less corrupt countries in this group, although there is no correlation with other aid measures. In summary, except for aid recipients at the higher levels of economic development, there is no evidence that highly corrupt countries receive less aid than similarly poor but less corrupt countries, and some evidence to suggest that they receive more.

Conclusion and Policy Implications

CIDA appears to give a large proportion of its development aid to countries with systemic corruption. Moreover, regional, country, and program shares of the aid budget are rooted in historical precedent, rather than based on effectiveness criteria. At a minimum, these findings point to the need to reexamine how aid gets allocated based on governance and corruption criteria, and to recognize and address explicitly the reality of corruption in aid recipients. Given the complexity of development, there are no appropriate hard and fast decision rules that CIDA can apply. However, here are some policy guidelines the agency could follow.

- *CIDA should reassess regional and country shares of its budget to take into account aid effectiveness criteria.* The effectiveness of aid in reducing poverty depends crucially on how aid is allocated. Aid is ineffective in poorly governed, highly corrupt countries. CIDA should base aid shares, including shares for any new development aid spending, on a transparent set of relevant current criteria rather than on historical precedent.
- *CIDA should coordinate with other donors while focusing on the effectiveness of its own aid.* Corruption and poor governance are often systemic and detract significantly from the effectiveness of aid and development in countries that receive large total amounts of it. These problems are not easily resolved and, therefore, donor

coordination is key. In practice, however, coordination is difficult. Since Canada is a relatively small donor, its aid goals must be focused, realistic, and achievable if aid is to be effective.

- *When countries are equally poor, more aid should go to the less corrupt.* Aid should focus on the least corrupt among poor countries. Evidence suggests that a dollar of aid spent in a less corrupt country will increase per capita incomes and reduce infant mortality by more than the same dollar spent in a highly corrupt one. The Netherlands, a relatively small aid donor, selects recipients based on both their degree of poverty and the degree to which they are well governed.
- *When aid is given to poor countries that are also highly corrupt, the countries chosen should demonstrate the will and capacity to reform.* Highly corrupt countries tend also to be poor. Giving aid to such countries without taking seriously the problem of corruption may have no effect on poverty and could actually worsen it. CIDA should channel aid to countries with the capacity and political will to control corruption. This is especially important given that donor micromanagement of aid is an illusion: all governments use resources, including aid transfers, as they choose.
- *Aid to poor, highly corrupt countries should go toward activities that improve transparency and accountability.* In these countries, CIDA could, for example, train civil servants in auditing. Programming should also recognize that incentives are at least as important as traditional legal and enforcement initiatives. Where the government is highly corrupt and lacks the will to reform, CIDA could fund uncorrupt NGOs, such as universities or policy institutes, to increase the country's quality of information, policy analysis, and public debate.[15]
- *A role could be found for provincial governments in areas under their jurisdiction.* CIDA could, for example, fund partnership agreements between the provinces and regional governments in recipient countries to improve the quality of health and school administration (such an agreement is already in place between Saskatchewan and South Africa's Orange Free State). In the longer term, such partnerships could lead to beneficial competition within the public sectors of host countries, resulting in better governance, more accountability, and reduced corruption.
- *Governance projects should include an explicit anticorruption dimension.* A recently announced CIDA legal reform project in Bangladesh, while covering many important institutional aspects requiring reform, fails to mention the extent to which corruption exists in that country's legal sector. Without a serious consideration of corruption, governance-related reform attempts will have a limited impact on development.

The potential impact of aid is significant, if it is allocated effectively. A substantive and open reassessment of which countries receive aid and for what purpose, based on governance and corruption criteria, could go a long way toward improving the effectiveness of Canada's development aid program.

15 Bangladesh is an example of a country where poor governance, including widespread bribery and ineffective basic oversight institutions, makes it difficult to work with the government to control corruption. But Bangladesh also has many highly effective NGOs, including universities, that could train public servants.

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